

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|---------------------------------|---|-----------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name ST. JOSEPH COUNTY TRANSP. AUTHORITY | County ST. JOSEPH |
| Audit Date 9/30/04 | Opinion Date 11/19/04 | Date Accountant Report Submitted to State: 11/26/04 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|---------------------------|-------------------------|---------------------|
| Certified Public Accountant (Firm Name) MCMURRAY, MARKS & EDMUNDS | | | |
| Street Address 805 VAN BRUNT AVENUE | City ST. JOSEPH | State MI | ZIP 49085 |
| Accountant Signature <i>Michael W. Fayher</i> | | Date 11/19/04 | |

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

September 30, 2004 and 2003

**ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY
THREE RIVERS, MICHIGAN
SEPTEMBER 30, 2004**

BOARD OF DIRECTORS

| | |
|-----------------------|------------------|
| Jerry Laudenslager | Chairperson |
| Ken Parker | Vice Chairperson |
| Jean Skalski | Secretary |
| Karen Carlisle | Director |
| Glen Oxender | Director |
| Lynn Coursey | Director |
| Cindy Sunday-Horstman | Director |

**TRANSPORTATION DIRECTOR
Dennis Schuh**

Board members shall serve until no longer meeting the qualifications as set forth in Article IX, Section 3, of the articles of incorporation.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
St. Joseph County Public Transportation Authority

We have audited the accompanying financial statements of the governmental activities of the St. Joseph County Public Transportation Authority, as of and for the years ended September 30, 2004 and 2003, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the St. Joseph County Public Transportation Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the St. Joseph County Public Transportation Authority as of September 30, 2004 and 2003, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2004, on our consideration of the Authority's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
November 19, 2004



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of the
St. Joseph County Public Transportation Authority

We have audited the financial statements of St. Joseph County Public Transportation Authority as of and for the years ended September 30, 2004 and 2003, and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether St. Joseph County Public Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Joseph County Public Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Board of Director's, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
November 19, 2004

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2004 and 2003

The St. Joseph County Public Transportation Authority (the "Authority") is a public transportation authority located in St. Joseph County, Michigan, which adopted the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") during its first year of operations. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be a discussion and analysis of the financial results for the fiscal years ended September 30, 2004 and 2003 of the management of the Authority.

Financial Highlights

- The Authority's total net assets at September 30, 2004 were \$141,613, of which \$116,755 was invested in capital assets. At September 30, 2003 net assets were \$126,161.
- The Authority's total expenses were \$850,098, while total revenues were \$865,550 (\$352,262-operating; \$513,288 non-operating and capital contributions).
- The Authority exceeded the statutory assistance of 42.236619648% (2004) and 43.800078503% (2003) of eligible expenses for operating assistance by \$128,902 for the two fiscal years and has recorded a current year payable. The Authority was below the 10.95% for section 5311 funding by \$17,519 for and has recorded a current year receivable.

Overview of the Financial Statements

This report consists of three parts---*management's discussions and analysis* (this section), the *basic financial statements*, and *supplemental information*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

Summary of net assets —The Authority's net assets were \$141,613 and \$126,161 as noted below:

| | 2004 | 2003 |
|----------------------------|--------------------------|--------------------------|
| Current assets | \$ 197,088 | \$ 182,614 |
| Capital assets | 116,755 | 104,885 |
| Total assets | <u>\$ 313,843</u> | <u>\$ 287,499</u> |
| Current liabilities | <u>\$ 172,230</u> | <u>\$ 161,338</u> |
| Net assets | | |
| Invested in capital assets | \$ 116,755 | \$ 104,885 |
| Unrestricted | 24,858 | 21,276 |
| Total net assets | <u><u>\$ 141,613</u></u> | <u><u>\$ 126,161</u></u> |

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2004 and 2003****Analysis of Financial Position**

The Authority's operations ending September 30, 2004 and 2003 had net assets increasing by \$15,452 and \$126,161, respectively. A few of the significant factors affecting net assets during the year are discussed below:

A. Operations

Operating expenses exceeded operating revenues by \$497,836 and \$419,814. Net non-operating revenues of \$513,288 and \$545,975 were also received from sources that include operating grants from the State of Michigan and federal government.

B. Net Investment in Capital Assets

The Authority's investment in capital assets had an increase of \$11,870 at September 30, 2004. The net activity for the year is summarized in the following table:

| | Balance 10/1/2003 | Additions | Retirements | Balance 9/30/2004 |
|--------------------------------|----------------------|------------------|-------------|----------------------|
| Capital assets | \$ 116,539 | \$ 37,032 | \$ - | \$ 153,571 |
| Less: accumulated depreciation | (11,654) | (25,162) | - | (36,816) |
| | <u>\$ 104,885</u> | <u>\$ 11,870</u> | <u>\$ -</u> | <u>\$ 116,755</u> |

The additions included a new communication system and related equipment to be used for maintaining buses. They were financed with contributions from capital grants received from the State of Michigan. Capital acquisitions are expected to be the same or slightly lower next year.

Results of Operations

The Authority's results of operations for the fiscal years ended September 30 are summarized below:

Revenues:

| | 2004 | 2003 |
|----------------------|-------------------|-------------------|
| Program revenues | | |
| Charges for services | \$ 352,262 | \$ 309,027 |
| General revenues | | |
| State grants | \$ 363,235 | 404,753 |
| Federal grants | 150,053 | 141,222 |
| Total revenues | <u>\$ 865,550</u> | <u>\$ 855,002</u> |
| Expenses: | | |
| Transportation costs | <u>850,098</u> | <u>728,841</u> |
| Change in net assets | <u>\$ 15,452</u> | <u>\$ 126,161</u> |

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2004 and 2003****Results of Operations, Concluded****A. Operating Grants**

The State of Michigan operating assistance grants funds totaled 42.236619648% and 43.800078503% of eligible operating expenses for 2004 and 2003, respectively.

B. Federal Grants

Funding is also received from Federal Section 5311 monies passed through the State of Michigan at 10.95% of eligible operating expenses. In addition, the Authority receives Project Zero monies based on a statewide program designed to return people to work. These funds, partnered with MDOT, FIA, and HDCD, are received and reported separately from regular public transit funds.

C. Charges for Services

The Authority also subsidizes operations with fares received from passengers from transportation services. Fares comprised \$352,262 or 40% and \$309,027 or 36% for 2004 and 2003, respectively, of total revenues received.

D. Contract Services

The Authority contracts with a third-party to provide all services for transportation in St. Joseph County, Michigan. Rates were charged based on vehicle hours at \$29.90/hour for the year ended September 30, 2004.

Usage for the years by quarter is shown in the following table:

| <u>Quarter</u> | Vehicle Hours | | Vehicle Mileage | | Passengers | |
|----------------|----------------------|---------------|------------------------|----------------|-------------------|---------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| First | 5,612 | 3,891 | 130,586 | 110,526 | 16,896 | 12,598 |
| Second | 5,951 | 4,535 | 130,711 | 94,972 | 17,112 | 13,111 |
| Thrid | 5,662 | 4,924 | 120,052 | 106,757 | 16,612 | 15,552 |
| Fourth | 5,559 | 5,038 | 130,202 | 106,740 | 16,020 | 15,485 |
| | <u>22,784</u> | <u>18,388</u> | <u>511,551</u> | <u>418,995</u> | <u>66,640</u> | <u>56,746</u> |

Fund Expenditures Budget vs. Actual

| Expenditures | Original and | | Variance |
|--------------|---------------------|--------------------|-------------------------------|
| | <u>Final Budget</u> | <u>Final Audit</u> | <u>Audit vs. Final Budget</u> |
| 2003-2004 | <u>\$ 976,806</u> | <u>\$ 850,098</u> | <u>\$ 126,708</u> |
| 2002-2003 | <u>\$ 922,286</u> | <u>\$ 728,841</u> | <u>\$ 193,445</u> |

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2004 and 2003****Fund Revenues Budget vs. Actual**

Revenues

| | Original and Final Budget | Final Audit | Variance Audit vs. Final Budget |
|-----------|------------------------------|-------------------|---------------------------------------|
| 2003-2004 | <u>\$ 975,323</u> | <u>\$ 865,550</u> | <u>\$ (109,773)</u> |
| 2002-2003 | <u>\$ 922,532</u> | <u>\$ 855,002</u> | <u>\$ (67,530)</u> |

Original verses Final Budget

There were no changes or amendments to the original preliminary budget to the final budget.

Economic Factors and Next Year's Budgets and Rates

The funding composition for the transit service consists of State, Federal and Local dollars. While Federal funding has remained fairly consistent, State formula operating assistance from MDOT has continued to decline for the past several years. Other State funding for special programs like Transportation to Work has also been significantly reduced. State funding will probably continue to decrease based upon state forecasts of the economy.

The service received approximately sixty percent of its revenue from state/federal sources in FY 2004. The balance came from fare box and contract revenue. State/federal revenue is targeted at fifty percent for FY 2005. Without a millage or contribution from the County, the only source of local funds is the fare box and contracted services. Since much of the service is provided to human service agencies, the reductions they have received in State revenue also limits them on the amount of transportation they can contract for. This has had a significant impact on raising the local share. All of this makes it increasingly difficult to maintain the level of service that is needed to serve the County. The Authority has already eliminated all Sunday transit service and made a substantial reduction in the amount of service available on Saturdays and weekday evenings.

The local plan for budget monitoring includes review of the budget vs. actual expenses on a monthly basis to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: a further reduction in service hours, raise fares/contract rates; or a combination of both. With both limited financial resources and means to raise revenue, the Authority will need to closely monitor service operations throughout the year.

Comparative Information

The financial report show comparative data and the Authority expect to continue to present full comparative statements.

Contacting the Authority's Financial Management

The financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 810 Webber Street, Three Rivers, Michigan 49093.

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**STATEMENT OF NET ASSETS**
September 30, 2004 and 2003**ASSETS**

Current Assets:

| | 2004 | 2003 |
|---|-------------------|-------------------|
| Cash and cash equivalents (Notes 3 and 5) | \$ 120,206 | \$ 136,545 |
| Accounts receivable (Note 6) | 47,004 | 32,979 |
| Due from federal government (Note 4) | 17,519 | 5,401 |
| Escrow-Michigan Transit Pool | 6,319 | - |
| Prepaid insurance (Note 3) | 6,040 | 7,689 |
| Total current assets | <u>\$ 197,088</u> | <u>\$ 182,614</u> |

Noncurrent assets:

Capital Assets: (Notes 3 and 7)

| | | |
|-------------------------------|--------------------------|--------------------------|
| Buses | \$ 102,690 | \$ 102,690 |
| Equipment | 50,881 | 13,849 |
| Less accumulated depreciation | (36,816) | (11,654) |
| Total noncurrent assets | <u>\$ 116,755</u> | <u>\$ 104,885</u> |
| Total assets | <u><u>\$ 313,843</u></u> | <u><u>\$ 287,499</u></u> |

LIABILITIES

Current liabilities:

| | | |
|----------------------------------|-------------------|-------------------|
| Accounts payable (Note 6) | \$ 37,009 | \$ 36,083 |
| Unearned Revenues | 6,319 | - |
| Due to state government (Note 4) | 128,902 | 125,255 |
| Total current liabilities | <u>\$ 172,230</u> | <u>\$ 161,338</u> |

NET ASSETS (Note 3)

| | | |
|----------------------------------|--------------------------|--------------------------|
| Invested in capital assets | \$ 116,755 | \$ 104,885 |
| Unrestricted | 24,858 | 21,276 |
| Total net assets | <u>\$ 141,613</u> | <u>\$ 126,161</u> |
| Total liabilities and net assets | <u><u>\$ 313,843</u></u> | <u><u>\$ 287,499</u></u> |

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

September 30, 2004 and 2003

OPERATING REVENUES

Charges for services

| | 2004 | 2003 |
|--|-------------|-------------|
| | \$ 352,262 | \$ 309,027 |

OPERATING EXPENSES

Services:

Advertising \$ 1,942 \$ 1,215

Audit costs 4,750 4,250

Other (transportation coordinator) 20,004 20,000

Materials and Supplies 1,165 1,217

Utilities 1,605 1,520

Casualty and Liability Costs:

| | | |
|---|--------|--------|
| Premiums for public liability and property damage insurance | 33,433 | 35,650 |
|---|--------|--------|

| | | |
|------------------------------------|--------|-------|
| Other casualty and liability costs | 12,524 | 6,515 |
|------------------------------------|--------|-------|

| | | |
|-----------------------------------|---------|---------|
| Purchased transportation services | 732,982 | 632,710 |
|-----------------------------------|---------|---------|

Miscellaneous:

| | | |
|--------------------------------|-------|-------|
| Travel, meetings, and training | 1,080 | 1,513 |
|--------------------------------|-------|-------|

| | | |
|---------------------|-----|-----|
| Other miscellaneous | 980 | 810 |
|---------------------|-----|-----|

| | | |
|------------------------------|-------|-------|
| Operating leases and rentals | 1,217 | 1,217 |
|------------------------------|-------|-------|

| | | |
|----------------------------|---|-------|
| Interest on state advances | - | 1,212 |
|----------------------------|---|-------|

| | | |
|-------------------------------|--------|--------|
| Depreciation on capital costs | 25,162 | 11,654 |
|-------------------------------|--------|--------|

| | | |
|------------------------------|--------|-------|
| Maintenance on capital costs | 13,254 | 9,358 |
|------------------------------|--------|-------|

| | | |
|--------------------------|------------|------------|
| Total operating expenses | \$ 850,098 | \$ 728,841 |
|--------------------------|------------|------------|

| | | |
|--------------------|--------------|--------------|
| Net operating loss | \$ (497,836) | \$ (419,814) |
|--------------------|--------------|--------------|

NONOPERATING REVENUES (EXPENSES)*State of Michigan operating grants:*

| | | |
|--|------------|------------|
| Operating assistance (Act 51) (Note 4) | \$ 304,828 | \$ 276,912 |
|--|------------|------------|

| | | |
|---|--------|---|
| Specialized services-operating assistance | 17,600 | - |
|---|--------|---|

| | | |
|-----------------|-----|-------|
| R.T.A.P. monies | 821 | 1,944 |
|-----------------|-----|-------|

Federal operating grants:

| | | |
|--------------------------------------|--------|--------|
| Federal section 5311 monies (Note 4) | 78,508 | 68,762 |
|--------------------------------------|--------|--------|

| | | |
|-----------------------------|--------|--------|
| Federal project zero monies | 71,545 | 72,460 |
|-----------------------------|--------|--------|

| | | |
|-----------------------------|------------|------------|
| Total nonoperating revenues | \$ 473,302 | \$ 420,078 |
|-----------------------------|------------|------------|

| | | |
|---|-------------|--------|
| Income(loss) before contributions and transfers | \$ (24,534) | \$ 264 |
|---|-------------|--------|

CAPITAL CONTRIBUTIONS AND TRANSFERS

| | | |
|-------------------------|---|---------|
| M.D.O.T Grant 2001-0888 | - | 102,690 |
|-------------------------|---|---------|

| | | |
|----------------------------|--------|---|
| M.D.O.T Grant 2002-0693/Z3 | 38,436 | - |
|----------------------------|--------|---|

| | | |
|-------------------------|---|--------|
| M.D.O.T Grant 2002-0571 | - | 13,849 |
|-------------------------|---|--------|

| | | |
|-------------------------|-------|-------|
| M.D.O.T Grant 2002-0567 | 1,550 | 9,358 |
|-------------------------|-------|-------|

| | | |
|----------------------|-----------|------------|
| Change in net assets | \$ 15,452 | \$ 126,161 |
|----------------------|-----------|------------|

| | | |
|--------------------------------|---------|---|
| Net assets---beginning of year | 126,161 | - |
|--------------------------------|---------|---|

| | | |
|--------------------------|------------|------------|
| Net assets---end of year | \$ 141,613 | \$ 126,161 |
|--------------------------|------------|------------|

The accompanying notes are an integral part of these financial statements.

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**STATEMENT OF CASH FLOWS**
September 30, 2004 and 2003**CASH FLOWS FROM OPERATING ACTIVITIES**

| | 2004 | 2003 |
|---------------------------------------|---------------------|---------------------|
| Receipts from customers | \$ 350,673 | \$ 285,582 |
| Payments to suppliers | (843,268) | (687,581) |
| Net cash used by operating activities | <u>\$ (492,595)</u> | <u>\$ (401,999)</u> |

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES**

| | | |
|---------------------|-------------------|-------------------|
| Operating subsidies | <u>\$ 473,302</u> | <u>\$ 530,398</u> |
|---------------------|-------------------|-------------------|

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

| | | |
|---|-----------------|-----------------|
| Capital contributions | \$ 39,986 | \$ 125,897 |
| Purchase of capital assets | (37,032) | (116,539) |
| Interest paid on advances | - | (1,212) |
| Net cash provided by capital and related financing activities | <u>\$ 2,954</u> | <u>\$ 8,146</u> |

| | | |
|--|--------------------------|--------------------------|
| Net increase in cash and cash equivalents | \$ (16,339) | \$ 136,545 |
| Balances-beginning of year | 136,545 | - |
| Balances-end of year | <u><u>\$ 120,206</u></u> | <u><u>\$ 136,545</u></u> |

**Reconciliation of operating loss to net cash used
by operating activities:**

| | | |
|--|----------------------------|----------------------------|
| Operating loss | \$ (497,836) | \$ (419,814) |
| <i>Adjustments to reconcile operating loss to net cash used by operating activities:</i> | | |
| Depreciation expense | 25,162 | 11,654 |
| Interest paid on state advances | - | 1,212 |
| Non-operating receivables (payables), net | - | (110,320) |
| <i>Change in current assets and liabilities:</i> | | |
| Accounts receivable | (14,025) | (32,979) |
| Due from federal government | (12,118) | (5,401) |
| Escrow-Michigan Transit Pool | (6,319) | - |
| Prepaid insurance | 1,649 | (7,689) |
| Accounts payable | 926 | 36,083 |
| Unearned revenues | 6,319 | - |
| Due to state government | 3,647 | 125,255 |
| Net cash used by operating activities | <u><u>\$ (492,595)</u></u> | <u><u>\$ (401,999)</u></u> |

The accompanying notes are an integral part of these financial statements.

NOTE 1. DESCRIPTION OF THE REPORTING ENTITY

The St. Joseph County Public Transportation Authority (the "Authority") is a public body organized as a legal entity pursuant to the Public Transportation Authority Act--- Public Act 196 of 1986. The Authority was created to coordinate the transportation for human service agencies in St. Joseph County, Michigan and provide those services for the County of St. Joseph. The Authority has the capability and the authority to provide public transportation to the general public in the area serviced.

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The Authority is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is a fiscal dependency by the organization on the Authority

Based on the aforementioned criteria, the Authority has no component units.

The Authority also implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34"). Changes to the Authority's financial statements as a result of GASB 34 are as follows:

A Management's Discussion and Analysis ("MD&A") section providing analysis of the Authority's overall financial position and results of operations has been included.

Basic financial statements prepared using full accrual accounting for all of the Authority's activities have been provided.

NOTE 2. DESCRIPTION OF FUNDS**Proprietary (Enterprise) Fund**

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of American ("GAAP") as applicable to governmental units and with the rules prescribed in the local public transit revenue and expense manual by the Michigan Department of Transportation. The Authority also applies Financial Accounting Standard ("FASB") pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The most significant of the Authority's accounting policies are described below:

A. Fund Accounting

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority's functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund. See Note 2 for description.

B. Basis of Presentation

Financial statements. — The statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows display information about the Authority as a whole. These statements include the financial activities of the primary government. The statements show those activities of the Authority that are considered business-type activities, the only type of the Authority. With the Authority having only one fund type, a single presentation presents the total activity and fund.

The statements are accounted for on a flow using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e. revenues) and decreases (i.e. expenses) in net total assets. The statement of cash flow provides information about how the Authority finances and meets the cash flow needs of its proprietary activity.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The proprietary fund uses the accrual basis of accounting.

Revenues: Exchange Transactions — Revenue resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**C. Basis of Accounting, concluded**

Revenues: Non-exchange Transactions — Revenues in which the Authority receives value without directly giving equal value in return, include grants, entitlements, and fares, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements; which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements; in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements; in which the resources are provided to the Authority on a reimbursement basis.

Expenses— Expenses are recognized at the time they are incurred.

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current operations with an initial maturity of three months or less to be cash equivalents.

E. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current fiscal year, are recorded as prepaid items using the consumption method.

F. Inventories

Inventories of replacement parts and fuel are valued at lower of cost or market. Office supplies are not included in inventories.

G. Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Authority does not possess any infrastructure. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONCLUDED**G. Capital Assets and Depreciation, concluded**

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|---------------------|------------------------|
| Buses | 5 years |
| Equipment and other | 5 – 10 years |

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are passenger and contract fares collected for providing transportation services.

J. Contributions of Capital

Contributions of capital in the proprietary fund arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal years ended September 30, 2004 and 2003.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 4. OPERATING ASSISTANCE RECEIVABLE (PAYABLE)**State Operating Assistance Receivable (Payable)**

| | 2004 | 2003 |
|---|---------------------|---------------------|
| Operating Expenses | \$ 850,098 | \$ 728,841 |
| Less: | | |
| Interest expense | - | (1,212) |
| Depreciation | (25,162) | (11,654) |
| Repairs and maintenance reimbursement | (13,254) | (9,358) |
| Project zero reimbursements | (71,545) | (72,460) |
| Specialized services | (17,600) | - |
| Seminars and other reimbursements (R.T.A.P.) | (821) | (1,944) |
| Eligible operating expenses subject to limitation | <u>\$ 721,716</u> | <u>\$ 632,213</u> |
| 42.24% (2004) and 43.80 % (2003) of eligible operating expenses | \$ 304,828 | \$ 276,910 |
| State operating revenues received | 308,475 | 402,165 |
| Due from(to) State Government current year | <u>\$ (3,647)</u> | <u>\$ (125,255)</u> |
| Due from(to) State Government prior year | (125,255) | |
| Total due from(to) State Government | <u>\$ (128,902)</u> | |

**Section 5311 Operating Assistance
Receivable (Payable)**

| | | |
|--|-------------------|-------------------|
| Operating expenses | \$ 850,098 | \$ 728,841 |
| Less: | | |
| Interest expense | - | (1,212) |
| Depreciation | (25,162) | (11,654) |
| Repairs and maintenance reimbursement | (13,254) | (9,358) |
| Audit expense | (4,750) | (4,250) |
| Project zero reimbursements | (71,545) | (72,460) |
| Specialized services | (17,600) | - |
| Seminars and other reimbursements (R.T.A.P.) | (821) | (1,944) |
| Eligible operating expenses subject to limitation | <u>\$ 716,966</u> | <u>\$ 627,963</u> |
| 10.95% of eligible operating expenses | \$ 78,508 | \$ 68,762 |
| Progress payments made | 66,390 | 63,361 |
| Due from Federal Government-5311 monies current year | <u>\$ 12,118</u> | <u>\$ 5,401</u> |
| Due from Federal Government-5311 monies prior year | 5,401 | |
| Total due from Federal Government-5311 monies | <u>\$ 17,519</u> | |

NOTE 5. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, section 129.91, authorizes the Authority to invest in the accounts of Federally insured banks, credit unions, and savings and loan associations: bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States, including securities issued or guaranteed by the Government National Mortgage Association, United States government, or Federal agency obligation repurchase agreements: bankers' acceptance of United States banks: mutual funds composed of investment vehicles that are legal for direct investment by local government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions which do not have branches located in Michigan.

The Authority's deposits are in accordance with State statutory authority.

At September 30, 2004, the Authority has deposits with local banks. The carrying amounts are \$120,206 with the bank balance being \$120,150. The Federal Deposit Insurance Corporation (FDIC) provides the protection of the Authority's deposits.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3 *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements* is as follows:

| | 2004 | 2003 |
|---------------------------------------|-------------------|-------------------|
| Deposits: | | |
| Insured (F.D.I.C) | \$ 100,000 | \$ 100,000 |
| Uninsured and uncollateralized | 20,150 | 36,475 |
| Total Deposits | \$ 120,150 | \$ 136,475 |
| Undeposited cash (petty cash on hand) | 56 | 70 |
| Total Cash Balances | <u>\$ 120,206</u> | <u>\$ 136,545</u> |

NOTE 6. RECEIVABLES AND PAYABLES

Receivables as of September 30, 2004 and 2003 consist of accounts (fees) and intergovernmental grants. All receivables are considered collectible in full and are summarized as follows:

| | 2004 | 2003 |
|---------------------------|------------------|------------------|
| Charges for services | \$ 25,034 | \$ 23,445 |
| State capital grants: | | |
| M.D.O.T. 2002-0567 | 1,550 | 4,236 |
| R.T.P.A. | - | 769 |
| M.D.O.T. 2002-0693/Z3 | 3,223 | - |
| Federal operation grants: | | |
| Project zero | 17,197 | 4,529 |
| | <u>\$ 47,004</u> | <u>\$ 32,979</u> |

Payables as of September 30, 2004 and 2003
are summarized as follows:

| | | |
|-------|------------------|------------------|
| Trade | <u>\$ 37,009</u> | <u>\$ 36,083</u> |
|-------|------------------|------------------|

NOTE 7. CAPITAL ASSETS

Capital asset activity for the fiscal years ended September 30 was as follows:

Purchased with Capital Grants:

| | Balance 10/1/2003 | Additions | Retirements | Balance 9/30/2004 |
|-----------------------------------|----------------------|------------------|-------------|----------------------|
| Buses | \$ 102,690 | \$ - | \$ - | \$ 102,690 |
| Equipment | 13,849 | 37,032 | - | 50,881 |
| | <u>\$ 116,539</u> | <u>\$ 37,032</u> | <u>\$ -</u> | <u>\$ 153,571</u> |
| Less: accumulated depreciation | (11,654) | (25,162) | - | (36,816) |
| | <u>\$ 104,885</u> | <u>\$ 11,870</u> | <u>\$ -</u> | <u>\$ 116,755</u> |

NOTE 8. CAPITAL GRANTS

The Authority has contracted with federal and state agencies for grant funds to purchase equipment. All monies that the Authority is now eligible to receive have not yet been disbursed or requested. The following table shows the funds available at September 30, 2004:

| Grant | Approved | Received | Requested | Available |
|---------------------------------|------------------|------------------|-----------------|------------------|
| M.D.O.T. contract 2002-0571 | \$ 14,000 | \$ 13,849 | \$ - | \$ 151 |
| M.D.O.T. contract 2002-0567 | 14,000 | 9,248 | 1,550 | 3,202 |
| M.D.O.T. contract 2002-0693/Z3: | | | | |
| Communication System | 25,500 | 18,086 | 83 | 7,331 |
| Power washer & compressor | 17,500 | 15,120 | - | 2,380 |
| Paint buses | 17,000 | 2,007 | 3,140 | 11,853 |
| | <u>\$ 88,000</u> | <u>\$ 58,310</u> | <u>\$ 4,773</u> | <u>\$ 24,917</u> |

NOTE 9. RISK MANAGEMENT

The Authority participates in a public entity risk pool for its general and automobile liability insurance. The pool is through the Michigan Transit Pool Liability Trust Fund and will cover up to \$4,000,000 per claim subject to a \$10,000 per claim deductible. Settled claims relating to the insurance did not exceed coverage during the current fiscal year.

NOTE 10. OPERATING LEASES

The Authority entered into a lease with ARCH, Inc. for the use of vehicles, equipment and buildings. The lease, dated October 1, 2002 is for a term of two years. The building is being leased for \$100 per month. Sixteen (16) vehicles are being leased for \$1 per year each and the equipment is also leased for \$1 per year. The total rent expense for the years ended September 30, 2004 and 2003 was \$1,217, respectively. The minimum obligations for the next five years are \$1,217 for the year ended September 30, 2005.

SUPPLEMENTARY INFORMATION



ACCOUNTANT'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
St. Joseph County Public Transportation Authority

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Joseph County Public Transportation Authority's basic financial statements. The schedule of operating expenses and the schedule of eligible cost computations are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
November 19, 2004

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY

SCHEDULE OF OPERATING EXPENSES
 SEPTEMBER 30, 2004
 (with comparative totals for 2003)

| | <u>Operations</u> | <u>Maintenance</u> | <u>General and Administrative</u> | <u>Totals</u> | <u>2003 Totals</u> |
|--|-------------------|--------------------|---------------------------------------|-------------------|------------------------|
| <i>Services:</i> | | | | | |
| Advertising | \$ 1,942 | \$ - | \$ - | \$ 1,942 | \$ 1,215 |
| Audit costs | - | - | 4,750 | 4,750 | 4,250 |
| Other (transportation coordinator) | - | - | 20,004 | 20,004 | 20,000 |
| Materials and Supplies | - | - | 1,165 | 1,165 | 1,217 |
| Utilities | - | - | 1,605 | 1,605 | 1,520 |
| <i>Casualty and Liability Costs:</i> | | | | - | - |
| Premiums for public liability and property damage insurance | 33,433 | - | - | 33,433 | 35,650 |
| Other casualty and liability costs | - | - | 12,524 | 12,524 | 6,515 |
| Purchased transportation services | 715,382 | - | 17,600 | 732,982 | 632,710 |
| <i>Miscellaneous:</i> | | | | | |
| Travel, meetings, and training | - | - | 1,080 | 1,080 | 1,513 |
| Other miscellaneous | - | - | 980 | 980 | 810 |
| Operating leases and rentals | 1,217 | - | - | 1,217 | 1,217 |
| Interest on state advances | - | - | - | - | 1,212 |
| Depreciation on capital costs | 25,162 | - | - | 25,162 | 11,654 |
| Maintenance on capital costs | - | 13,254 | - | 13,254 | 9,358 |
| | <u>\$ 777,136</u> | <u>\$ 13,254</u> | <u>\$ 59,708</u> | <u>\$ 850,098</u> | <u>\$ 728,841</u> |

ST. JOSEPH COUNTY PUBLIC TRANSPORTATION AUTHORITY**SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS
SEPTEMBER 30, 2004**

| | State Operating Assistance | Federal Section 5311 |
|--|----------------------------------|----------------------------|
| <i>Services:</i> | | |
| Advertising | \$ 1,942 | \$ 1,942 |
| Audit costs | 4,750 | 4,750 |
| Other (transportation coordinator) | 20,004 | 20,004 |
| Materials and Supplies | 1,165 | 1,165 |
| Utilities | 1,605 | 1,605 |
| <i>Casualty and Liability Costs:</i> | | |
| Premiums for public liability and property damage insurance | 33,433 | 33,433 |
| Other casualty and liability costs | 12,524 | 12,524 |
| Purchased transportation services | 732,982 | 732,982 |
| <i>Miscellaneous:</i> | | |
| Travel, meetings, and training | 1,080 | 1,080 |
| Other miscellaneous | 980 | 980 |
| Operating leases and rentals | 1,217 | 1,217 |
| Interest on state advances | - | - |
| Depreciation on capital costs | 25,162 | 25,162 |
| Maintenance on capital costs | 13,254 | 13,254 |
| Total operating expenses | <u>\$ 850,098</u> | <u>\$ 850,098</u> |
| Less: Ineligible Expenses | | |
| Interest on state advances | \$ - | \$ - |
| Depreciation on capital costs | 25,162 | 25,162 |
| Maintenance on capital costs | 13,254 | 13,254 |
| Project zero reimbursements | 71,545 | 71,545 |
| Specialized services | 17,600 | 17,600 |
| Seminars and other reimbursements (R.T.A.P.) | 821 | 821 |
| Audit expense | - | 4,750 |
| Total Ineligible expenses | <u>\$ 128,382</u> | <u>\$ 133,132</u> |
| Net Eligible Expenses | <u>\$ 721,716</u> | <u>\$ 716,966</u> |
| State Statutory Operating Assistance: | | |
| 42.236619648% of eligible expenses | <u>\$ 304,828</u> | n/a |
| Federal Section 5311: | | |
| 10.95% of eligible expenses | n/a | <u>\$ 78,508</u> |